

**STATE WATER RESOURCES CONTROL BOARD  
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE  
SEPTEMBER 20, 2018**

**ITEM 7**

**SUBJECT**

CONSIDERATION OF A RESOLUTION APPROVING WATER RECYCLING FUNDING PROGRAM (WRFP) AND CLEAN WATER STATE REVOLVING FUND (CWSRF) FINANCING TO KERN-TULARE WATER DISTRICT (DISTRICT) FOR THE OIL FIELD WATER REUSE PROJECT (PROJECT); PROJECT NO. 8097-110

**DISCUSSION**

The District is located in California's Central Valley region. The District is an agricultural water supplier, providing water to 19,600 acres of high-value permanent crops (primarily oranges, grapes, almonds, and pistachios). The District does not provide domestic or industrial water service. The crops are irrigated using drip or micro sprinkler irrigation methods. The District submitted an Agricultural Water Management Plan (AWMP) on August 31, 2016 in accordance with Executive Order B-29-15. The AWMP has been received and reviewed by the Department of Water Resources.

The District's water supply is imported from the Sacramento-San Joaquin Delta, the San Joaquin River, and the Kern River. The remaining irrigation demand is met by pumping groundwater from privately owned wells.

The District is partnering with Hathaway, LLC and Jasmin Ranchos Mutual Water Company to manage up to 2,640 acre-feet per year (AFY) of "produced water" for delivery to existing irrigated agriculture within the District. Oil field produced water from Hathaway will be transported through 1.3 miles of 12-inch underground pipeline to the proposed Guzman Reservoir. From the Guzman Reservoir, water will be transported through 1.8 miles of 30-inch pipeline to the District's existing Big 4 Reservoir, from which it will be blended with the District's other sources and distributed in existing pipelines to approximately 3,700 acres of existing irrigated agriculture located within the District. Acceptance of the "produced water" from Hathaway will allow the District to decrease imported water from the Sacramento/San Joaquin delta and decrease local groundwater pumping.

The District will use Division of Financial Assistance (DFA) funds to construct the 590 AF Guzman Reservoir and the 1.8 miles of 30-inch pipeline from the Guzman Reservoir to the Big 4 Reservoir. The District completed construction of the 12-inch pipeline from Hathaway to the Guzman Reservoir on July 31, 2017.

The District is requesting a 20-year term for their financing agreement. The District currently has a 20-year term with Hathaway, LLC to receive treated oil production water which will expire on July 1, 2036. The District will need to amend their agreement with Hathaway to match the expiration of a 20-year term financing agreement, roughly 2039.

The District is requesting \$5,888,950 in financing.

The District prepared an Environmental Impact Report (EIR) for the project which was circulated through the State Clearinghouse for review and comment. On August 11, 2016 the District certified the EIR, adopted an Mitigation Monitoring and Reporting Program (MMRP) and approved the Project. On June 1, 2017 DFA completed an environmental review of the District's documents and determined the Project will not result in any significant adverse water quality impacts. The financing would require the District to implement Mitigation Measures as part of the agreement.

The Central Valley Regional Water Quality Control Board (Regional Board) convened an expert panel in 2016 with the objective of providing input on human health and safety of crops irrigated with oil field produced water. The panel's recommendations will be in the form of guidance and opinions provided in written documents that the Regional Board will consider when developing and implementing their oil field regulatory program. Crop sampling for citrus is still in progress and will continue throughout the 2018 calendar year

DFA has determined that the Project is eligible for funding under the CWSRF Policy and WFRP Guidelines. DFA has also determined that the Project is eligible for CWSRF Green Project Reserve Principal Forgiveness under the water efficiency category. The project is listed on the State Fiscal Year 2018-19 CWSRF Intended Use Plan as Fundable.

## **POLICY ISSUE**

1. Should the State Water Resources Control Board (State Water Board) approve funding with the estimated amount of \$5,888,950 for the Project composed of a combination of CWSRF loan, Proposition 1 WFRP loan, and 50% of eligible Green Project Reserve costs from CWSRF Principal Forgiveness up to a maximum of \$2,500,000?
2. Should the State Water Board approve the financing subject to the conditions in the August 11, 2016 MMRP?
3. Should the State Water Board approve the financing subject to the credit condition regarding the District's pledge, future debt coverage ratio, and reserve requirements?
4. Should the State Water Board approve the financing subject to conditions regarding Regional Water Board permitting for the project and extending the District's agreement with Hathaway, LLC to receive treated oil production water?

## **FISCAL IMPACT**

The Project will be funded through already budgeted Proposition 1 Loan, CWSRF Loan and CWSRF Principal Forgiveness resources.

The total cost of the construction project is \$5,956,950, which will be funded through the following sources:

Proposition 1 Loan:	\$2,944,475
CWSRF Loan:	\$ 444,475
Principal Forgiveness:	\$2,500,000
So Cal Edison Grant:	<u>\$ 68,000</u>
TOTAL	\$5,956,950

The proposed beneficial re-use of the recycled industrial wastewater is for agricultural irrigation. The comparative revenue and expense analysis of the District for Fiscal Year (FY) 2014, 2015, 2016, and 2017, and three years' Budget Projections are summarized below. 2017 operating

revenues were significantly lower due to decrease of water sales. This was a result of higher precipitation compared to previous years.

The District has one outstanding long-term agreement with the Southern San Joaquin Municipal Utility District providing for the purchase and permanent assignment of assigned water supply. This is a material obligation and not a secured debt. The current balance on this agreement as of December 31, 2017 was \$2,008,865 with annual payments of \$495,175 principle and interest. The loan will mature March 2022.

The Districts' ending cash balance as of December 31, 2017 was \$12,253,954.

Fiscal Year	Audited 2015	Audited 2016	Audited 2017	Projections 2018	Projections 2019	Projections 2020
Operating Revenues	\$11,761,757	\$12,278,479	\$7,542,951	\$14,295,680	\$14,563,826	\$15,193,908
Non-Operating Revenues	\$31,361	\$50,437	\$34,284	\$15,000	\$15,000	\$15,000
Operating Expenses	\$5,888,146	\$12,259,168	\$6,441,111	\$13,563,069	\$13,686,215	\$14,358,733
Non-Operating Expenses	\$2,450	\$0	\$0	\$0	\$0	\$0
Net Revenues	\$5,902,522	\$69,748	\$1,136,124	\$747,611	\$892,611	\$850,175
Outstanding Debt Service	\$495,173	\$495,176	\$495,175	\$495,175	\$495,175	\$495,175
Proposed Debt Service	\$0	\$0	\$0	\$0	\$0	\$203,278
Total Debt Service	\$495,173	\$495,176	\$495,175	\$495,175	\$495,175	\$698,453
Debt Service Coverage	11.92	0.14	2.29	1.51	1.80	1.22

The District will be required to establish a Restricted Reserve Fund to be held in its Enterprise Fund equal to one year's debt service on the Obligation.

## REGIONAL BOARD IMPACT

Approval of the financing would support the Regional Board's efforts to reuse "produced water."

## HUMAN RIGHT TO WATER ANALYSIS

The proposed action supports the human right to water because it will reduce local groundwater pumping to irrigate crops. Local groundwater supplies will, therefore, be available for direct human uses consistent with the human right to water.

## STAFF RECOMMENDATION

1. The State Water Resources Control Board (State Water Board) should approve funding with the estimated amount of \$5,888,950 for the Project composed of a combination of CWSRF loan, Proposition 1 WRF loan, and 50% of eligible Green Project Reserve costs from CWSRF Principal Forgiveness up to a maximum of \$2,500,000.
2. The State Water Board should approve the financing subject to the conditions in the August 11, 2016 MMRP.
3. The State Water Board should approve the financing subject to the credit condition regarding the District's pledge, future debt coverage ratio, and reserve requirements.
4. The State Water Board should approve the financing subject to conditions regarding Regional Water Board permitting for the project and extending the District's agreement with Hathaway, LLC to receive treated oil production water.

State Water Board action on this item will assist the Water Boards in reaching Goal 3 of the Strategic Plan Update: 2008-2012 to increase sustainable local water supplies available for meeting existing and future beneficial uses and ensure adequate flows for fish and wildlife habitat. In particular, approval of this item will assist in fulfilling Objective 3.2 to increase the acceptance and promote the use of recycled water and the reuse of stormwater as locally available, sustainable water supplies consistent with the Climate Change Draft Scoping Plan developed pursuant to the California Global Warming Solutions Act of 2006 (AB 32) and other relevant State and regional efforts.